

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other			Local Government Name JACKSON DISTRICT LIBRARY		County JACKSON
Audit Date 12/31/04		Opinion Date 4/1/05		Date Accountant Report Submitted to State: 4/30/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) MARKOWSKI & COMPANY, CPAs			
Street Address 2880 SPRING ARBOR ROAD		City JACKSON	State MI
Accountant Signature 		ZIP 49203	

JACKSON DISTRICT LIBRARY

FINANCIAL STATEMENTS

DECEMBER 31, 2004

JACKSON DISTRICT LIBRARY

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OF SOUTH CENTRAL MICHIGAN

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Jackson District Library
Jackson, Michigan

We have audited the accompanying financial statements of the **JACKSON DISTRICT LIBRARY**, as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Jackson District Library's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Jackson District Library as of December 31, 2004, and the respective changes in financial position for the year then ended in conformity with auditing standards generally accepted in the United States of America.

The Management's Discussion and Analysis, required supplementary information, and additional information presented on pages 2-4, 18-20 and 21-22 respectively are not a required part of the basic financial statements but are supplementary financial information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

MARKOWSKI & COMPANY CPAs
Jackson, Michigan
April 1, 2005

Management's Discussion and Analysis

Introduction

This discussion and analysis of the Jackson District Library's financial performance provides an overview of the Library's financial activities for the fiscal year ended December 31, 2004.

GASB 34

This is the second year that the Jackson District Library (JDL) has complied with the requirements of GASB 34, a statement of accounting by governmental units issued by the Governmental Accounting Standards Board.

While the Jackson District Library is now adhering to GASB 34, it will continue to maintain its previous modified accrual accounting system.

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending.

There are advantages to having two levels of financial reporting. The new accrual-based method mirrors the private sector and is accessible to anyone who might come from a business background. It tends to show encumbered purchases, i.e. orders not yet paid, and liabilities, such as accumulated sick leave and vacation leave, better than the modified accrual method, and allows us to depreciate certain types of fixed assets as they decline in value over time (see Note 5). On the other hand, modified accrual accounting shows us what we have "in hand" and allows us to do comparisons with past years more easily.

Funding Issues

Like most other publicly funded governmental units in Michigan, JDL has been subject to the results of the instability of state revenues in recent years. Likewise, it is affected by Headley Amendment rollbacks which prevent property tax revenues from growing at the original rate of a voted millage. Though the Library passed a 20-year millage at a rate of 1.00 mills in 1996, the amount being collected has fallen to 0.8682 mills as of December 1, 2004. What this means is that we have to struggle to operate without depleting reserve funds.

The Libraries combined net assets increased 15% from a year ago – increasing from \$3.25 million to \$3.85 million. Total revenues increased by 7% from a year ago – increasing from \$4.18 million to \$4.50 million, partly on increased grant revenues from a grant to help a neighboring library install a computer networking system. Property tax revenues increased 7% from a year ago. Expenditures increased by 10% from a year ago – increasing from \$3.55 million to \$3.93 million. In a condensed format, the following table shows a comparison of the net assets and revenues and expenses as of the current date to the prior year:

Management's Discussion and Analysis

	Governmental Activities	
	2004	2003
Assets	\$ 7,666,772	\$ 6,838,870
Liabilities	3,814,248	3,583,591
Net Assets		
Invested in Capital Assets, net	828,066	482,230
Unrestricted	3,024,458	2,773,049
Total Net Assets	\$ 3,852,524	\$ 3,255,279
Revenues		
Property taxes	\$ 3,132,154	\$ 2,901,145
State Shared Revenues	204,719	208,135
Fines and fees	184,029	177,554
Penal fines	734,126	725,975
Investment income	49,650	61,727
Contributions and grants	141,329	57,759
Other revenues	59,028	52,215
Total revenues	4,505,035	4,184,510
Expenditures		
Culture and recreation	3,936,009	3,551,689
Change in Net Assets	\$ 569,026	\$ 632,821

The Library's Fund

JDL ended 2004 by adding \$219,159 to its overall fund balance, the third year in a row in which there was no need to draw down on reserve funds. This was a significant increase over the \$162,559 added to the fund balance in 2003 and the \$137,338 added in 2002. Since a \$97,886 deficit in 2001, more than \$500,000 has been added to Library reserves. The Library's fiscal constraint evidenced during the past three years is significant when consideration is given to the fact that two separate agreements were negotiated with staff members belonging to the Michigan Education Association and the Teamsters, each with retroactive payments made during this time period.

Management's Discussion and Analysis

Budget Management

As in the last couple of years, a close watch on the budget continued in 2004. The largest increases were in salaries and wages which increased 5% over the previous year and in health insurance which climbed 9%. Most other budget categories of any size grew at a lesser rate, including one of the largest parts of the budget, expenditures for books and other library materials, which increased less than 4%. In the end, however, the budget remained balanced because of increased revenues. Although a 5% growth in property tax revenues is expected in 2005, the Library must continue to keep an eye on expenses. With the cost of land acquisition for the expansion of the Meijer Branch and potential purchase of other properties coming out of the 2005 budget, it is probable that overall expenditures will exceed income for the first time in the last few years.

Local Growth

The Jackson District Library continues to be fortunate that its major revenue sources have continued to grow much faster than the statewide average. Jackson County's population is increasing at a rate double the state average and that has resulted in more new housing and more property tax revenue. The \$3,132,154 in property taxes collected by the Library in 2004 increased by 7% over 2003, compared to the less than a 3% increase in 2003 over 2002. Increases in penal fines, were limited to 1% in 2004 after climbing in the double digits the previous two years.

Financial Planning

Regardless of some of the past or expected ups and downs in its budget, the Library needs to continue to refine the financial forecasting tools it began to develop in early 2003. With a limited fund balance, the Library must operate conservatively if it is to maintain its current levels of operation for the remainder of the life of its 20-year millage. Either that or hard choices will have to be made in terms of numbers and locations of branches, as well as open hours and the size of staffing levels.

The Library Board recognized the need for capital improvements last year and made a commitment to pursue the renovation and expansion of all thirteen branch facilities countywide. Because such a project can in no way be financed through either operating or reserve funds, the Board realizes that it must seek additional funds. A funding feasibility study will be conducted in 2005 to determine the possibility of a capital campaign. Ultimately, however, a special millage dedicated to new or expanded buildings, as well as to any additional operating costs generated by added staffing, hours, utilities, and services, would be the key to success. One of the Board's major tasks this year will be to establish the amount it would require for such a plan, how much millage would be required to pay for and operate the new or expanded and renovated facilities, and how the entire project would be financed through fundraising and a public vote. The Board will also look at a "fallback" position, in case the request for public funding is unsuccessful, which would allow the Library to continue operating well maintained facilities and provide quality services, perhaps in a manner much different than in the past. In the meantime, the Board can take steps to designate excess funds as part of a capital contingency process.

FINANCIAL STATEMENTS

JACKSON DISTRICT LIBRARY
STATEMENT OF NET ASSETS
DECEMBER 31, 2004

	GOVERNMENTAL ACTIVITIES
ASSETS:	
Cash and cash equivalents	\$ 2,660,629
Investments	842,024
Accounts receivable	44,660
Property taxes receivable	3,290,943
Capital assets, net	<u>828,516</u>
Total assets	<u><u>\$ 7,666,772</u></u>
LIABILITIES:	
Accounts payable	\$ 123,180
Accrued liabilities	9,101
Accrued payroll	29,368
Deferred property taxes	3,290,943
Deferred revenue	105,401
Noncurrent liabilities:	
Compensated absences	<u>256,255</u>
Total liabilities	<u><u>3,814,248</u></u>
NET ASSETS:	
Invested in capital assets, net	828,066
Restricted	211,028
Unrestricted	<u>2,813,430</u>
Total net assets	<u><u>\$ 3,852,524</u></u>

The accompanying notes are an integral part of these financial statements.

JACKSON DISTRICT LIBRARY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2004

	NET (EXPENSE) REVENUE
EXPENSES:	
General government	\$ (3,936,009)
GENERAL REVENUES:	
Property taxes	3,132,154
State shared revenues	204,719
Fines and fees	184,029
Penal fines	734,126
Investment income	49,650
Contributions and grants	141,329
Other revenues	59,028
Total general revenues	<u>4,505,035</u>
Change in net assets	569,026
Net assets - beginning of year	<u>3,283,498</u>
Net assets - end of year	<u><u>\$ 3,852,524</u></u>

The accompanying notes are an integral part of these financial statements.

JACKSON DISTRICT LIBRARY
GOVERNMENTAL FUNDS BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2004

	GOVERNMENTAL FUND	RECONCILING ITEMS	STATEMENT OF NET ASSETS
ASSETS:			
Cash and cash equivalents	\$ 2,660,629	\$ -	\$ 2,660,629
Investments	842,024	-	842,024
Accounts receivable	44,660	-	44,660
Property taxes receivable	3,290,943	-	3,290,943
Capital assets, net	<u>-</u>	<u>828,516 (a)</u>	<u>828,516</u>
Total assets	<u><u>\$ 6,838,256</u></u>	<u><u>\$ 828,516</u></u>	<u><u>\$ 7,666,772</u></u>
LIABILITIES:			
Accounts payable	\$ 123,180	\$ -	\$ 123,180
Accrued liabilities	9,101	-	9,101
Accrued payroll	29,368	-	29,368
Deferred property taxes	3,290,943	-	3,290,943
Deferred revenue	105,401	-	105,401
Noncurrent liabilities -			
Compensated absences	<u>-</u>	<u>256,255 (b)</u>	<u>256,255</u>
Total liabilities	<u><u>3,557,993</u></u>	<u><u>256,255</u></u>	<u><u>3,814,248</u></u>
FUND BALANCES:			
Reserved	267,319		
Unreserved/Undesignated	<u>3,012,944</u>		
Total fund balance	<u><u>3,280,263</u></u>		
Total liabilities and fund balance	<u><u>\$ 6,838,256</u></u>		
NET ASSETS:			
Invested in capital assets			828,066
Restricted			211,028
Unrestricted			<u>2,813,430</u>
Total net assets			<u><u>3,852,524</u></u>

(a) Capital assets are expensed in governmental fund financial statements; the acquired assets are capitalized and depreciated in the government-wide statement of net assets.

(b) Long-term liabilities are not recognized in the governmental fund financial statements; the government-wide statement of net assets do include such obligations.

The accompanying notes are an integral part of these financial statements.

JACKSON DISTRICT LIBRARY

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE/STATEMENT OF
ACTIVITIES**

FOR THE YEAR ENDED DECEMBER 31, 2004

	<u>GOVERNMENTAL FUND</u>	<u>RECONCILING ITEMS</u>	<u>STATEMENT OF NET ASSETS</u>
REVENUES			
Property taxes	\$ 3,132,154	\$ -	\$ 3,132,154
State shared revenues	204,719	-	204,719
Fines and fees	184,029	-	184,029
Penal fines	734,126	-	734,126
Investment income	49,650	-	49,650
Contributions and grants	141,329	-	141,329
Other revenues	59,028	-	59,028
Total revenues	<u>4,505,035</u>	<u>-</u>	<u>4,505,035</u>
EXPENDITURES			
Culture and recreation	<u>4,285,876</u>	<u>(349,867) (a), (b)</u>	<u>3,936,009</u>
EXCESS OF REVENUE OVER EXPENDITURES	219,159	349,867	569,026
FUND BALANCES, BEGINNING OF YEAR	<u>3,061,104</u>	<u>222,394</u>	<u>3,283,498</u>
FUND BALANCES, END OF YEAR	<u><u>\$ 3,280,263</u></u>	<u><u>\$ 572,261</u></u>	<u><u>\$ 3,852,524</u></u>

(a) Capital outlays are expensed in governmental fund financial statements; the acquired assets are capitalized and depreciated in the statement of activities. Depreciation for the year ended December 31, 2004 was \$186,568. Capital outlays capitalized were \$532,854.

(b) The statement of activities recognizes compensated absences as an expense in the year earned; the governmental fund financial statements recognize this expense when its paid. Compensated absences decreased by \$3,581 for the year ended December 31, 2004.

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Jackson District Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Jackson District Library:

A. REPORTING ENTITY

The Jackson District Library (The "Library") was formed January 1, 1978, from a consolidation of the City of Jackson and County of Jackson Library systems. The Library is governed by an appointed board of trustees with seven-members.

B. GOVERNMENT WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e. the statement of net assets and statement of activities) report information on all of the nonfiduciary activities of the Library.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to users or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

The Library reports the following major governmental fund:

General Fund

The General Fund is the general operating fund of the District. It is used to account for all financial resources.

D: ASSETS, LIABILITIES, AND NET ASSETS

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Restricted Assets

Restricted assets consist of cash and investments that have been restricted by the donor at the date of the gift.

A joint venture between the Jackson District Library and the Jackson Community College to operate and maintain an automated library system to be shared between the two parties. Cash received from the Jackson Community College is restricted for the maintenance and operation of the system.

Capital Assets

Capital assets, which include books and related materials, property and equipment, are defined by the Library as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. (Computers or property and equipment purchased in groups are combined for the purpose of the capital threshold amount.)

Compensated Absences

It is the Libraries policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All sick and vacation pay is accrued when incurred in the Statement of Net Assets.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

E. ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the governmental fund. The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body is at the line item.

Encumbrance accounting is employed in the government fund. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures are liabilities because the goods or services have not been received as of year end; the commitments will be reappropriated and honored during the subsequent year.

Excess of Expenditures Over Appropriations in Budgeted Funds

During the year ended December 31, 2004, the District incurred expenditures in the General Fund which were in excess of the amounts appropriated. The variance is as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Office equipment	\$ 18,000	\$ 19,567	\$ (1,567)

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash, cash equivalents, and investments of the District can be defined as follows:

Cash and cash equivalents consist of cash on hand, deposits (checking accounts), and investments with an original maturity no greater than 90 days. Deposits are in one local bank with accounts in its name.

These surplus funds are invested in accordance with state law and Board resolutions. Authorized investments include:

- (1) Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States;
- (2) Certificates of deposit, savings accounts, deposit accounts or depository receipts of a financial institution, but only if the financial institution is eligible to be a depository of funds belonging to the state under a law or rule of this state or the United States;
- (3) Commercial paper rated at the time of purchase within the highest classification established by not less than two standard rating services, and that matures not more than 270 days from the purchased date;
- (4) Repurchase agreements consisting of instruments listed in subdivision (1) above;
- (5) Bankers' acceptances of United States banks;

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 3: CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

(6) Mutual funds registered under the Investment Company Act of 1940, and with authority to purchase only investment vehicles that are legal for direct investment by a public corporation;

(7) Obligations described in (1) through (6) as named above is purchased through an interlocal agreement under the Urban Cooperation Act of 1967;

(8) Investment pools organized under the Surplus Funds Investment Act, 367 of 1982;

(9) Investment pools organized under the Local Government Investment Pool Act, 121 of 1985.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the District's cash deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>
Imprest cash	\$ 119
Insured (FDIC)	100,000
Uninsured	<u>2,560,510</u>
	<u><u>\$ 2,660,629</u></u>

The District's deposits are in accordance with statutory authority.

Carrying values of investments is fair market values at December 31, 2004. GASB Statement #3 risk disclosures for the District's investments are as follows:

<u>Investment Type</u>	<u>Total Market Value</u>	<u>Total Cost</u>
Investment - Cash	\$ 139,944	\$ 139,944
Government bonds	651,816	636,949
Corporate equities	<u>50,264</u>	<u>41,890</u>
	<u><u>\$ 842,024</u></u>	<u><u>\$ 818,783</u></u>

The corporate equities represent stocks and mutual funds donated directly to the Jackson District Library.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 4: PROPERTY TAXES

Property tax revenues shown in the General Fund reflect the 2003 District levy of .8736 mills on the assessed valuation of property located in the County as of the preceding December 31st. Assessed values are established annually by the county and are equalized by the State at an estimated 50% of current market value.

The 2003 levy covers the District's fiscal year of January 1, 2004 to December 31, 2004. The 2003 tax levy became a lien on properties on December 1, 2003, and was substantially collected in early 2004. Taxes became delinquent on March 1, 2004. Taxes receivable - subsequent year, as presented in the General Fund balance sheet represents the next accounting period's uncollected taxes. Deferred taxes represent the subsequent years taxes both collected and uncollected that are unearned. These amounts are reported as such because the tax bills were issued December 1, 2004 for the 2005 fiscal year revenue.

NOTE 5: CAPITAL ASSETS

Capital assets, which include property, equipment and books and related materials are depreciated using the straight-line method over the following useful lives:

Books	2 to 10 years
Audio Visual	3 years
Circulating Software	3 years
Computer equipment	5 to 7 years
Equipment	5 to 7 years
Building Improvements	15 to 30 years

Capital asset activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets Being Depreciated:				
Building Improvements	\$ -	\$ 5,000	\$ -	\$ 5,000
Books	352,943	366,058	-	719,001
Audio Visual	121,168	124,537	-	245,705
Circulating Software	7,331	10,190	-	17,521
Computer Equipment	48,120	27,069	-	75,189
Equipment	14,942	-	-	14,942
Subtotal	<u>544,504</u>	<u>532,854</u>	<u>-</u>	<u>1,077,358</u>
Less Accumulated Depreciation for:				
Building Improvements	-	-	-	-
Books	36,353	109,564	-	145,917
Audio Visual	20,195	61,146	-	81,341
Circulating Software	1,222	4,142	-	5,364
Computer Equipment	3,437	9,581	-	13,018
Equipment	1,067	2,135	-	3,202
Subtotal	<u>62,274</u>	<u>186,568</u>	<u>-</u>	<u>248,842</u>
Net Capital Assets Being Depreciated	<u>\$ 482,230</u>	<u>\$ 346,286</u>	<u>\$ -</u>	<u>\$ 828,516</u>

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 6: COMPENSATED ABSENCES

Full-time District employees earn vacation and sick leave in accordance with the Library's personnel policies. After one year, all employees are entitled to vacation earned based on length of service, and a maximum of one week may be carried over to the following year. All employees earn sick leave at varying rates.

Upon termination, 50% of accumulated sick leave benefits up to a maximum of 90 work days will be paid by the District after 2 years of service.

Unpaid leave at December 31, 2004, which is not liquidated within the current operating cycle, has been reported in the governmental activities.

NOTE 7: DEFINED BENEFIT PENSION PLAN

Plan Description

The District contributes to the Michigan Municipal Employees Retirement System. The "System", an agent of multiple employer public employee retirement system that acts as a common investment and administrative agent for units of local government in Michigan. The District's payroll, for employees covered by the System for the year ended December 31, 2003 was \$1,304,603. Total gross pay for this period for all employees was \$2,175,754.

All full-time employees become a member of the System on the first day of employment, and are completely vested after 6 years of service. Normal retirement begins at age 50-60, depending on years of service. Service retirement allowances are based upon percentages ranging from one to two percent of 5-year final average compensation depending on the benefit program selected, social security coverage, etc. District employees are required to contribute 4 percent of their annual salary to the System. The District is required to contribute the remaining amounts necessary to fund the System based on an actuarial basis specified by statute.

Plan Assets

Information for the amount and types of securities included in plan assets is not available from the System. There are no loans from the System at December 31, 2004. Because these assets are held by the Michigan Municipal Employee's Retirement System, they are not reported as assets of the Jackson District Library in these financial statements.

Funding Status and Progress

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure, also known as the actuarial present value of credited projected benefits, is intended to (i) help users assess the plan's funding status on a going-concern basis, (ii) assess progress being made in accumulating sufficient assets to pay benefits when due, and (iii) allow for comparisons among public employee retirement plans. The measure is independent of the actuarial funding method used to determine contributions to the plan.

JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

Funding Status and Progress (Continued)

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of December 31, 2003, the date of the most recent actuarial valuation. Significant actuarial assumptions used in determining the pension benefit obligation include (a) a rate of return on the investment of present and future assets of 8.0% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% annually after retirement for persons under Benefit E-2.

At January 1, 2004, the assets in excess of the pension benefit obligation for the Jackson District Library were \$1,095,774 determined as follows:

Pension Benefit Obligation:

Retirees and beneficiaries currently receiving benefits	\$ 799,618
Terminated employees not yet receiving benefits	543,402
Non-vested terminated employees (pending refunds of accumulated member contributions)	14,933
Current employees:	
Accumulated employee contributions, including allocated investment income	490,136
Employer financed	<u>1,518,398</u>
Total Pension Benefit Obligation	3,366,487
Net Assets Available for Benefits, At Cost (Market value is \$4,074,525)	<u>4,462,261</u>
Assets in Excess of the Pension Benefit Obligation	<u>\$ 1,095,774</u>

During the year ended December 31, 2003, the plan for the Jackson District Library experienced a net change of (\$176,869) in the excess pension benefit obligation. The combined change in the pension benefit obligation resulting from benefit changes, if any, and revisions in actuarial assumptions is \$0.

Contribution Requirements and Contributions Made

MERS funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The normal cost and amortization payment for the year ended December 31, 2003, were determined using an attained age actuarial funding method. Unfunded actuarial accrued liabilities, if any, were amortized as a level percent of payroll over a period of 30 years.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: DEFINED BENEFIT PENSION PLAN (Continued)

Contribution Requirements and Contributions Made (Continued)

During the year ended December 31, 2003, no employer contributions were made in accordance with contribution requirements determined by an actuarial valuation of the plans as of December 31, 2003. Employee deductions are remitted to the plan monthly.

The effect of changes in actuarial assumptions or methods affecting the December 31, 1993 actuarial valuation and the effect of changes in benefit provisions, if any, on the computed contribution was not computed.

Significant actuarial assumptions used to compute contribution requirements were the same as those used to compute the standardized measure of the pension benefit obligation.

Ten-Year Trend Information

Historical trend information, as contained in the actuarial valuations for the periods indicated, is as follows:

Val. Date Dec. 31	Net Assets Available for Benefits	Pension Benefit Obligation (PBO)	Percent Funded	Assets in Excess of PBO	Annual Covered Payroll	PBO as a Percent of Annual Covered Payroll
1994	1,856,723	1,275,094	146%	581,629	757,400	77%
1995	2,039,871	1,436,809	142%	603,062	742,610	81%
1996	2,285,878	1,501,438	152%	784,440	762,957	103%
1997	2,717,823	1,964,275	138%	753,548	783,917	96%
1998	3,037,748	2,153,152	141%	884,596	770,757	115%
1999	3,471,090	2,071,554	168%	1,399,536	912,232	153%
2000	3,790,968	2,344,160	162%	1,446,808	988,308	146%
2001	4,061,616	2,616,322	155%	1,445,294	1,111,928	130%
2002	4,172,080	2,899,437	144%	1,272,643	1,130,716	113%
2003	4,462,261	3,366,487	133%	1,095,774	1,304,603	84%

Ten-year trend information presenting the MERS progress in accumulating sufficient assets to pay benefits when due is presented in the January 1, 2004 MERS Comprehensive Annual Report.

**JACKSON DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS**

NOTE 7: JOINT VENTURE

The District entered into a joint venture with Jackson Community College on September 25, 1991 to acquire, install, operate, and maintain an automated library system to be shared between the parties. The initial system cost, future additions, upgrades and maintenance are shared by Jackson District Library and Jackson Community College at a 2/3 - 1/3 ratio, respectively. An Opportunity Fund was established with each member depositing \$5,000 in an escrow account. The total balance in the investment account is \$287,559, which is offset by a liability for Jackson Community College's portion of the \$105,401 at December 31, 2004.

NOTE 8: RESERVED FUND BALANCE/RESTRICTED NET ASSETS

The amounts reported in the Statement of Net Assets identified as restricted net assets are comprised of the following:

Restricted for shared computerization agreement	\$ 182,158
Restricted for donor imposed restrictions	<u>28,870</u>
Total Reserved Net Assets	<u><u>\$ 211,028</u></u>

The amounts reported in the Governmental Funds Balance Sheet as reserved fund balance are comprised of the following:

Reserved for shared computerization agreement	\$ 182,158
Reserved for donor imposed restrictions	28,870
Reserved for encumbrances	<u>56,291</u>
Total Reserved Fund Balance	<u><u>\$ 267,319</u></u>

NOTE 9: RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (worker's compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance to manage these risks.

NOTE 10: NET ASSET RESTATEMENT

Fund Balance/Net assets have been restated to account for investments that were previously reported in trust funds. The original amounts were donations to the Library and any restrictions placed upon them are reported as reserved Fund Balance/Net Assets. The amount of the restatement was \$28,219.

REQUIRED SUPPLEMENTARY INFORMATION

JACKSON DISTRICT LIBRARY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Beginning of Year Fund Balance	\$ 2,898,545	\$ 3,061,104	\$ 3,061,104	-
Resources(Inflows)				
Property taxes	3,071,000	3,132,500	3,132,154	(346)
State shared revenues	213,000	205,249	204,719	(530)
Fines and fees	158,000	184,134	184,029	(105)
Penal fines	500,000	760,000	734,126	(25,874)
Investment income	35,000	35,000	49,650	14,650
Contributions and grants	39,000	165,450	141,329	(24,121)
Other revenues	44,000	62,303	59,028	(3,275)
Contingency	504,000	39,264	-	(39,264)
Amounts available for appropriation	<u>7,462,545</u>	<u>7,645,004</u>	<u>7,566,139</u>	<u>(78,865)</u>
Charges to Appropriations (Outflows)				
Salaries and wages	2,276,000	2,281,000	2,188,080	92,920
Board per diem	9,000	9,000	8,330	670
Social security	175,000	175,235	162,676	12,559
Health insurance	462,000	410,000	395,314	14,686
Life insurance	5,000	5,000	3,235	1,765
Unemployment	5,000	2,000	1,704	296
Director's conferences	4,000	5,000	4,911	89
Office supplies	37,000	30,000	23,497	6,503
Postage	22,000	22,000	19,068	2,932
Computer supplies	52,000	52,000	34,096	17,904
Printing/promotions/publicity	18,000	18,000	17,053	947
Technical processing supplies	21,000	21,000	18,683	2,317
Contracted services:				
Professional	50,000	45,000	28,429	16,571
Office equipment	27,000	35,000	28,884	6,116
Building/grounds	62,000	61,000	55,674	5,326
Software/upgrades	22,000	10,000	8,030	1,970
Other	19,000	28,000	24,977	3,023
Online computer library catalog	28,000	23,000	22,831	169
Shared computerization agreement	78,000	32,000	23,418	8,582
Building and maintenance supply	28,000	22,000	19,703	2,297
Gifts and memorial materials	-	6,300	4,561	1,739
Professional memberships and dues	7,000	5,000	4,896	104
Subtotal	<u>3,407,000</u>	<u>3,297,535</u>	<u>3,098,050</u>	<u>199,485</u>

JACKSON DISTRICT LIBRARY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET FAVORABLE (UNFAVORABLE)
Staff development	34,000	30,000	26,041	3,959
Staff recognition	3,000	5,600	5,356	244
Telephone	21,000	35,901	30,629	5,272
Transportation	17,000	17,500	16,198	1,302
Vehicle repairs and maintenance	3,000	3,000	2,414	586
Insurance and bonds	50,000	30,000	25,465	4,535
Utilities	90,000	80,000	71,335	8,665
Indirect State aid	85,000	70,000	69,005	995
Data lines	55,000	72,000	68,753	3,247
Internet lines	14,000	12,000	10,724	1,276
Fax lines	3,000	2,000	1,805	195
Library programs	31,000	35,000	31,677	3,323
Recruitment	7,000	5,000	4,389	611
Interloans	1,000	500	440	60
Miscellaneous	8,000	11,000	8,134	2,866
Art renovation expenses	-	150	110	40
Word wise expenses	6,000	6,000	5,643	357
Books	374,550	389,550	366,058	23,492
Periodicals	43,000	43,000	38,561	4,439
Audio-visual	133,200	133,200	124,537	8,663
Databases	56,250	50,000	48,094	1,906
Electronic software	-	12,000	10,190	1,810
Bindery	1,000	700	661	39
Contingency	10,000	14,000	12,488	1,512
Grant expenses - Grand Ledge	-	65,000	63,842	1,158
Building & improvements	40,000	110,000	93,641	16,359
Office equipment	20,000	18,000	19,567	(1,567)
Capital outlay-Computers	23,000	30,264	27,069	3,195
Capital outlay-Other	28,000	5,000	5,000	-
Total Charges to Appropriations	4,564,000	4,583,900	4,285,876	298,024
Budgetary Fund Balance-December 31	\$ 2,898,545	\$ 3,061,104	\$ 3,280,263	\$ 219,159

JACKSON DISTRICT LIBRARY
PENSION SYSTEM SCHEDULE OF FUNDING PROGRESS
DECEMBER 31, 2004

Schedule of Funding Progress:

Val. Date Dec. 31	Net Assets Available for Benefits	Pension Benefit Obligation (PBO)	Percent Funded	Assets in Excess of PBO	Annual Covered Payroll	PBO as a Percent of Annual Covered Payroll
1993	1,719,555	1,164,936	148%	554,619	852,996	65%
1994	1,856,723	1,275,094	146%	581,629	757,400	77%
1995	2,039,871	1,436,809	142%	603,062	742,610	81%
1996	2,285,878	1,501,438	152%	784,440	762,957	103%
1997	2,717,823	1,964,275	138%	753,548	783,917	96%
1998	3,037,748	2,153,152	141%	884,596	770,757	115%
1999	3,471,090	2,071,554	168%	1,399,536	912,232	153%
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2001	4,061,616	2,616,322	155%	1,445,294	1,111,928	130%
2002	4,172,080	2,899,437	144%	1,272,643	1,130,716	113%
2003	4,462,261	3,366,487	133%	1,095,774	1,304,603	84%

ADDITIONAL INFORMATION

JACKSON DISTRICT LIBRARY
STATEMENT OF ACTIVITIES - DETAIL
FOR THE YEAR ENDED DECEMBER 31, 2004

EXPENSES:

Salaries and wages	\$ 2,188,080
Board per diem	8,330
Sick and vacation wages	(3,581)
Social security	162,676
Health insurance	395,314
Life insurance	3,235
Unemployment	1,704
Director's conference	4,911
Office supplies	23,497
Postage	19,068
Computer supplies	34,096
Printing/promotions/publicity	17,053
Technical processing supplies	18,683
Contracted services:	
Professional	28,429
Office equipment	28,884
Building/grounds	55,674
Software/upgrades	8,030
Other	24,977
Online computer library catalog	22,831
Shared computerization agreement	23,418
Building and maintenance supply	19,703
Gifts and memorial materials	4,561
Professional memberships and dues	4,896
Staff development	26,041
Staff recognition	5,356
Telephone	30,629
Transportation	16,198
Vehicle repairs and maintenance	2,414
Insurance and bonds	25,465
Utilities	71,335
Indirect State aid	69,005
Data lines	68,753
Internet lines	10,724
Fax lines	1,805
Library programs	31,677
Recruitment	4,389
Interloans	440
Miscellaneous	8,134
Subtotal	<u>3,466,834</u>

JACKSON DISTRICT LIBRARY
STATEMENT OF ACTIVITIES - DETAIL
FOR THE YEAR ENDED DECEMBER 31, 2004

EXPENSES: (Continued)

Art renovation expenses	110
Word wise expenses	5,643
Periodicals	38,561
Databases	48,094
Bindery	661
Contingency	12,488
Grant expenses-Grand Ledge	63,842
Building and improvements	93,641
Office equipment	19,567
Depreciation	186,568
Total expenditures	<u>3,936,009</u>

REVENUE:

Property taxes	3,132,154
State shared revenues	204,719
Fines and fees	184,029
Penal fines	734,126
Investment income	49,650
Contributions and grants	141,329
Other revenues	59,028
Total revenues	<u>4,505,035</u>

Excess of Revenues Over (Under) Expenditures 569,026

Net Assets - Beginning 3,283,498

Net Assets - Ending \$ 3,852,524

MARKOWSKI & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS
2880 SPRING ARBOR ROAD
JACKSON, MICHIGAN 49203
PHONE (517) 782-9351
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K. LAVERNE MARKOWSKI, C.P.A.
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DOUGLAS E. ATKINS, C.P.A.

MEMBERS:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTS
ESTATE PLANNING COUNCIL
OF SOUTH CENTRAL MICHIGAN

Board of Trustees
Jackson District Library
Jackson, MI 49201

We have audited the general purpose financial statements of the Jackson District Library for the year ended December 31, 2004, and have issued our report thereon dated April 1, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated March 7, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable but not absolute, assurance that the general purpose financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud or other illegal acts may exist and not be detected by us.

As part of our audit, we considered the internal control of the Jackson District Library. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Jackson District Library are described in Note 1 to the general purpose financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year.

We noted no transactions entered into by the Jackson District Library during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the general purpose financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the general purpose financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by the Jackson District Library that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed several audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on the Jackson District Library's financial reporting process.

As part of our engagement, we also recorded several accrual entries which were considered part of the normal accounting for the District. This was in accordance with past practice. The accrual entries included those for receivables and accrued expenses.

Disagreements with Management

For purpose of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the general purpose financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Jackson District Library's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit. We were very pleased with the cooperation of the administrative staff. There were two points which we did want to bring to the Board's attention; these points are discussed in the attached Memorandum of Comments and Recommendations.

This information is intended solely for the use of the Board of Trustees and should not be used for any other purpose. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

MARKOWSKI & COMPANY, CPAs

April 1, 2005

**ACCOUNTING MEMORANDUM
COMMENTS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2004**

EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. As detailed in Note 2 of the financial statements the Library incurred expenditures in excess of amounts appropriated in one area.

We recommend that the Library continue to monitor and amend the budget as necessary.

RETIREES HEALTH INSURANCE LIABILITY

Currently, individuals who retire from the Jackson District Library and are fully vested in the pension plan (6 years of service) receive an added benefit of health insurance. Under new guidelines as set forth by the Government Accounting Standards Board this liability will be required to be recorded in the financial statements of the District Library. In order to properly determine the amount of this liability an actuarial study will be required. This requirement takes effect starting January 1, 2008, but it is our recommendation to start the process earlier than required.